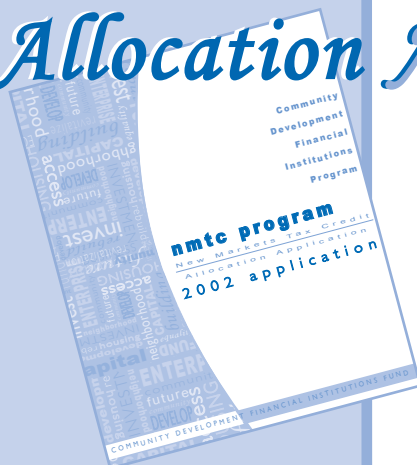


# CDFI *fund* INNOVATOR

Moving the Field Forward

## Allocation Application Available:

### The New Markets Tax Credit Program Officially Opened



The much anticipated first round of the New Markets Tax Credits (NMTC) Program officially “opened” on Tuesday, June 4, 2002 with the publication of a Notice of Allocation Availability (NOAA) in the Federal Register. The Allocation Application was also made available to the public through the CDFI Fund’s website ([www.cdfifund.gov](http://www.cdfifund.gov)) on the same day.

In this first allocation round, \$2.5 billion in tax credits are available through a competitive application process. The application deadline is August 29, 2002. The Fund anticipates announcing the first allocations made under the NMTC Program late this year.

applicants, investors, state and local community economic development officials valuable information on the NMTC Program, Fund staff will travel to the below listed cities across the nation in July 2002 to conduct free Information Sessions.

Atlanta, GA	July 18
Chicago, IL	July 19
Dallas, TX	July 23
Denver, CO	July 17
El Paso, TX	July 24
Jackson, MS	July 11
Los Angeles, CA	July 8
Miami, FL	July 16
Minneapolis, MN	July 22
New York, NY	July 15
San Diego, CA	July 9
Seattle, WA	July 10

(“New Markets” continued on page 3)

## Development Venture Capital:

Kentucky Highlands Investment Corporation  
BY DEVON IDSTROM  
accountability reports.

*Those attracted to the community development finance field inspire commitment, dedication, and passion to improving the quality of life for others in their communities. The work done, by practitioners in this field, is as diverse and myriad as the communities in which they work. In the day-to-day life of a community development finance practitioner, some of that dedication and excitement about the field can wear thin—in the tensions created by producing deal flow, fundraising, and generating*

*Stepping back, for just a minute, provides time for reflection and regeneration of excitement about the importance of development finance. In this issue’s Practitioner Perspective, we focus on the transformations that have taken place in rural Eastern Kentucky.*

An in-depth look at one CDFI — Kentucky Highlands Investment

(“Kentucky Highlands” continued on page 8)

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- 6 • CDFI Fund Re-Organization Part II
- 8 • Practitioners Perspective



“Kentucky Highlands”

U.S. Department of the Treasury



Volume 5 | Issue 2

Dear Readers,

As I write, Spring is finally here, and it is our yearly reminder of renewal and new life. This spirit of renewal has taken on new life here at the CDFI Fund as we have the chance to breathe new life into areas long ignored for capital investments.

We will have the chance to do this by ensuring that significantly higher levels of investment are channeled into low income and economically distressed communities through the New Markets Tax Credit (NMTC) Program. The NMTC Program is being introduced this month with the goal of spurring \$15 billion in new private capital through tax credits over the next seven years. Increasing the flow of capital into business ventures that will bring new jobs, a better quality of life, and increased wealth to these locales will soon be a reality. We are ready to take applications for allocations of New Markets Tax Credits!

Staff at the Fund introduced the landmark NMTC Program, which will provide Community Development Entities (CDEs) with a powerful tool for opening up the dialogue with investors who may never have considered the double bottom line value of investing in our more disadvantaged areas – social and financial rewards.



Tony Brown, Director

By the time you get this, the NMTC Program Notice of Allocation Availability application will be available for your consideration. I hope you will consider it seriously if the profile of your organization is one that fits these opportunities. Many of you (now over 200) have registered as, or applied to be, certified CDEs already.

This newsletter details the timeline of events for the NMTC Program, and gives a fine example of how development venture capital has been at work in Eastern Kentucky. We hope it stimulates your thinking as you consider how you can participate in New Markets. Again, I encourage your participation, both in signing on as a CDE, and in helping to move serious investment capital into the parts of our nation that need it most. We hope, in some small measure, that arming you with tax credits is the defibrillator that sparks new life in our nation's distressed communities.

Thanks for your help and good luck with your capital investment funding drive!

*Tony*

Tony T. Brown  
Director



**The Community Development Financial**

**Institutions Fund** is a wholly-owned government corporation within the U.S. Department of the Treasury.

**Vision:** An America in which all people have adequate access to credit, capital and affordable financial services. **Mission:** To expand the capacity of financial institutions to provide capital, credit and financial services in underserved markets.

The CDFI Fund encourages the dissemination of new ideas and information to further community development in the United States. Articles authored by people who are not CDFI Fund employees, or about programs or products not administered by the Fund, however, may not be endorsed by the Fund nor has the Fund conducted any independent research to determine their accuracy.

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*If you receive duplicate issues of this newsletter, please notify us.*

VISIT OUR WEBSITE FOR UP-TO-DATE  
INFORMATION ON THE FUND  
**[www.cdfifund.gov](http://www.cdfifund.gov)**

US Department of the Treasury



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# Allocation Application Available

## The New Markets Tax Credit Program Officially Opens

BY BILL LUECHT



In addition, the CDFI Fund will broadcast an Information Session to the 81 cities listed below using interactive video teleconferencing technology. The NMTC Program Video Information Session will be broadcast on July 12, at 1:00 p.m. EST.

Albany, NY; Albuquerque, NM; Anchorage, AK; Atlanta, GA; Baltimore, MD; Bangor, ME; Birmingham, AL; Boise, ID; Boston, MA; Buffalo, NY; Burlington, VT; Camden, NJ; Casper, WY; Charleston, WV; Chicago, IL; Cincinnati, OH; Cleveland, OH; Columbia, SC; Columbus, OH; Dallas, TX; Denver, CO; Des Moines, IA; Detroit, MI; Fargo, ND; Flint, MI; Fresno, CA; Ft. Worth, TX; Grand Rapids, MI; Greensboro, NC; Hartford, CT; Helena, MT; Honolulu, HI;

Houston, TX; Indianapolis, IN; Jackson, MS; Jacksonville, FL; Kansas City, KS; Knoxville, TN; Las Vegas, NV; Little Rock, AR; Los Angeles, CA; Louisville, KY; Lubbock, TX; Manchester, NH; Memphis, TN; Miami, FL; Milwaukee, WI; Minneapolis, MN; Nashville, TN; New Orleans, LA; New York, NY; Newark, NJ; Oklahoma City, OK; Omaha, NE; Orlando, FL; Philadelphia, PA; Phoenix, AZ; Pittsburgh, PA; Portland, OR; Providence, RI; Reno, NV; Richmond, VA; Sacramento, CA; Salt Lake City, UT; San Antonio, TX; San Diego, CA; San Francisco, CA; San Juan, PR; Santa Ana, CA; Seattle, WA; Shreveport, LA; Sioux Falls, SD; Spokane, WA; Springfield, IL; St. Louis, MO; Tampa, FL; Tucson, AZ; Tulsa, OK; Washington, DC; Wilmington, DE.

All sessions will provide an overview of the process to apply to be certified as a Community Development Entity, the tax guidance and NOAA that govern the NMTC Program, a review of the application materials, a demonstration of the Fund's internet-based Help Desk, and Q & A time with Fund staff. Attendance at an information session is not required to submit an application for a NMTC allocation.

To attend an NMTC Information Session, please register online by visiting the Fund's website at [www.cdfifund.gov](http://www.cdfifund.gov). An electronic Letter of Confirmation, which will include detailed information such as the exact location of the Information Session and suggestions for local accommodations, will be e-mailed within one hour after submitting the registration online. For more information, please call the NMTC team at 202-622-7373. ♦

# THE Annual CDFI Industry Survey

BY VANESSA LOWE

Can you answer the following questions?

*How many CDFIs are structured as Credit Unions?*

*How many loans did the CDFI industry originate in year 2000?  
How much capital did CDFIs raise from traditional banks?*

*What was the average loan loss ratio of all CDFI housing loan funds in year 2000?*

These questions can only be answered by creating an accurate and comprehensive industry data collection system. That's the task that the CDFI Data Project has been tackling for the last three years. Data collection for CDFI fiscal year 2001 activities will start soon and we want to make sure your CDFI figures are included. Proving that there is a CDFI industry involves being able to report on our collective accomplishments and performance measures.


The CDFI Data Project (CDP) is

a multi-year collaboration of industry leaders including six of the major CDFI trade associations, the Corporation for Enterprise Development, the MacArthur and Ford Foundations, and the CDFI Fund. Last year the CDP designed and administered a common industry survey to 379 CDFIs. Through this process the CDP was able to collect a common set of data related to the financial health, portfolio quality, and program performance for all sectors of the CDFI industry. While the Fund surveyed only its Core Component Awardees last year, this year we are asking all certified CDFIs to complete the survey. The survey is a reporting requirement of the Fund's Core, SECA and TA awardees. We are asking certified CDFIs that are not awardees to complete the survey voluntarily. We and the other participants in the CDP hope this will more than double the number of total respondents; and, more importantly, move us closer to an accurate count of the entire CDFI industry. We can only do that with your help.

As an incentive to complete the survey, we have spearheaded the creation of an on-line directory of

CDFIs. Only survey respondents will be included in that directory. We and the other participants in the CDP hope this directory will become the primary resource for those interested in learning more about you and other CDFIs. Potential customers, partners, supporters, and referring CDFIs should all find the directory enormously useful. We want your CDFI to be listed.

Please start preparing now to complete this comprehensive industry survey. You can do this by completing your Fiscal Year 2001 Annual Report and updating your 2001 loan and performance data. We know the survey is time-consuming but we hope that you take the opportunity to use the data we ask for as a way of analyzing your own performance. We welcome your feedback as to how to improve the data and the data collection process.

See the CDFI Fund website for answers to the questions in the first paragraph and other interesting data collected from the fiscal year 2000 CDP data. Your CDFI numbers could be included for year 2001. If you have any questions about the CDFI Data Project or the survey please contact Vanessa Lowe at the CDFI Fund, (202) 622-8669 or [LoweV@cdfi.treas.gov](mailto:LoweV@cdfi.treas.gov). 

# Secondary Market *Study and Survey*


BY DONNA FABIANI

Is your CDFI undercapitalized? Are you finding it hard to raise capital? Even if this is not the case today, if your CDFI is growing it may face capital shortages at some point in the future. CDFIs typically rely on philanthropy or borrowing. But there may be other opportunities to raise capital. Have you thought about selling your loans? Selling loans on the “secondary market” is very common among traditional lenders particularly residential mortgage lenders. Fannie Mae and Freddie Mac, household names, are the largest purchasers of mortgage loans. Rather than tie up their capital for the 30-year life of a mortgage loan, mortgage lenders sell their loans shortly after they are made. The sale gives them instant capital to begin making new mortgage loans. To measure the need for and interest in a secondary market for the CDFI Industry, the summer the Fund will be distributing a specialized survey to all certified CDFIs.

The concept of the secondary market is new to many CDFIs. In fact, very few CDFIs have engaged in loan sales to date. Loan sales can take different forms. In some cases, a CDFI sells a portion of its loans while maintaining all loan servicing functions. In other cases, the purchasers takes over the entire loan balance and service the loans themselves. In either case, the CDFIs benefited from increased liquidity: the proceeds of the sale were available to make new loans.

Because the secondary market is potentially a very large source of capital for CDFIs, the CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI loans. The study will look at the current and future capital needs of CDFIs. If there is a need for additional capital sources, the study will make recommendations on how the Fund can promote the expansion of the secondary market for CDFI loans. The Fund has contracted Abt Associates, Inc. to conduct the study. Abt’s team includes the Community Reinvestment Fund, a major purchaser of community development loans, and the Capital

Access Group, a firm that works with purchasers and sellers of economic development loan portfolios.

The study involves consultations with CDFIs, secondary market purchasers and others with an interest in this area. To get the input of as many CDFIs as possible, we will conduct a Secondary Market Survey in the late summer. This survey is voluntary for all CDFIs (unlike the Annual Survey which is a requirement of Fund awardees). We encourage all CDFIs that receive the survey to respond, even if you aren’t currently selling loans. The participation of a large number of CDFIs will help us assess industry needs and what role the Fund might play in the future. This is an exciting initiative with much promise for the future of the field. If CDFI loans can be made attractive to potential investors, the CDFI industry will gain a major source of capital that is likely to grow with the industry’s needs. 

## Financial Strategies & Research

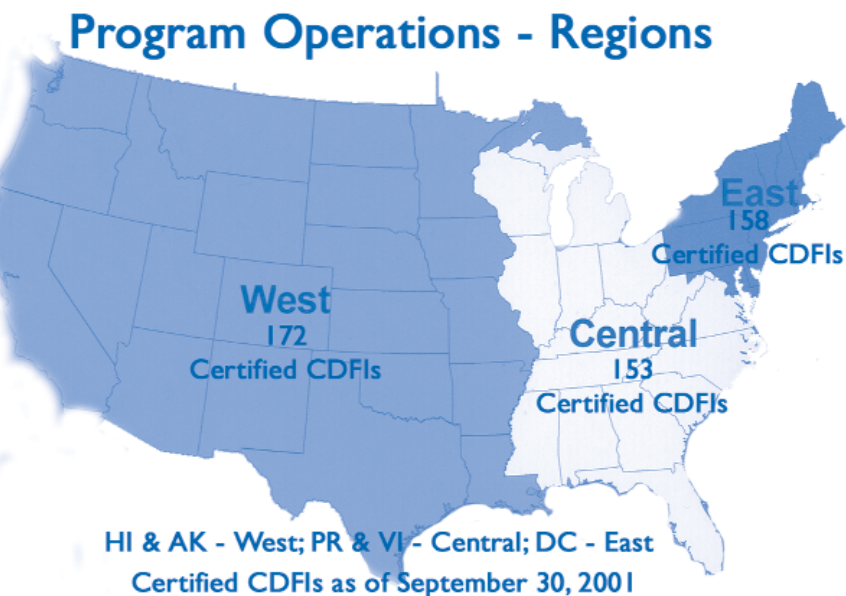
# CDFI FUND *News*

## FUND REORGANIZATION - Part II

### Emerging Initiatives: Program Operations Plus!

In the last issue of the CDFI Innovator, many new changes were announced regarding the structure of the CDFI Fund and how it will affect the field. One of the most important changes occurred within the Program side of the house, when several units merged to form Program Operations. Led by Louisa Quittman, Program Operations is the largest work unit at the Fund, involving 13 people, not including administrative support.

The most noticeable change is that the unit has been aligned along geographical divisions: West, Central/South, and East. "Taking a regional approach will result in a number of positive outcomes, for both the end customer and Fund staff," notes Program Operations Manager Quittman. Customers should have more ready contact with staff representatives, and will realize faster turnaround of funding applications. Staff working in a given geography will become more expert in their region, and will be able to provide outreach and information that suits the needs of local institutions. The Fund also hopes to be more responsive to the diversity of institutions serving the



country by having on-staff experts in the needs of the various parts of the country.

For staff, division by region means a more balanced workload, and the chance for better coordination between the various programs at the Fund. Says new Program staff Craig Tenney, assigned to the Eastern division, "regionally focusing will help increase staff awareness of the issues in a given region, and help us [the Fund] to identify and support new organizations in deficit areas." With family ties in New York, and being fluent in English and Spanish, Craig adds that regional vs.

functional work divisions make more sense, since program and financial analysts must cover all types of programs offered at the Fund.

Paula Smith, serving the Western region, is excited about the opportunity to develop relationships with CDFIs in the West, particularly in California, having been born and raised in California. Operating remotely from Mission Viejo, Paula hopes that focussing on one region will give her a greater understanding of diverse market conditions and trends occurring in the area.

In the reorganization, regional advisors have been appointed for each part of the country. The three advisors and their teams, by region, are:

## **EAST:**



Rosa Martinez,  
Advisor; Janet  
Carter, Deepthi  
Jain, and Craig  
Tenney, Analysts.

*Hi, I'm Rosa Martinez, the Regional Advisor for the North-East Region. This region has large urban centers with established infrastructure of community development organizations. I believe that working with the regionalization will build on my familiarity with urban markets. It will be interesting to see what new CDFIs develop and how these establish market niches in the presence of large sophisticated groups. I feel that the North-East Region will also provide plenty of opportunity to work with groups serving immigrant populations, an area that I am particularly interested in. Finally, I feel that regionalization will provide greater exposure to groups serving rural market in this region.*

## **CENTRAL/ SOUTH:**

Pam Williams,  
Advisor;  
Devon Idstrom,  
Deatra Perkins and  
Heather Wiley,  
Analysts



*Hi, my name is Pam Williams. As Regional Advisor for the*

*Central/South Region, I believe that regionalization affords a new way of synthesizing the challenges community development organizations face in serving underserved individuals and distressed communities. Members of the Central Region will seek to identify these challenges and suggest practical ways to address them. The opportunity to work with a diversely talented team focused on a geographic region with such varied community development structures and the mix of rural, urban, and suburban markets is what I am most looking forward to about being Regional Advisor for the Central Region.*

## **WEST:**



Patricia Krackov,  
Advisor; Jim Berg,  
Paula Smith, and  
Alice Veenstra,  
Analysts.

*Hi, I am Pat Krackov. The Western Region is vast and includes a wide variety of CDFIs at different levels of maturity. The challenge for our team is to keep abreast of changes within those markets and among different parts of the CDFI industry. We're aided by the fact that two of our staff members are based in the region—one in Southern California and the other in Denver. We also have considerable expertise in Native American issues: our Denver-based person is a member of the Oglala Sioux Tribe and our DC-based staff member participated in the Native American Lending Study and coordinated the development and implementation of the Fund's new*

*Native American CDFI Technical Assistance (NACTA) Component. Finally, as a Western "native daughter" and fluent Spanish speaker who has worked along the U.S.-Mexico border, I hope to use my skills and prior experience to add value to the Fund's work in the region, particularly with CDFIs that serve Hispanic populations.*

Program advisors all concur that taking a regional approach will be positive.

Currently, there are 158 certified CDFIs in the East, 153 in Central/South, and 172 in the West.

Presidential Management Intern Devon Idstrom, working in the Central/South region as an analyst, summarizes what most staff is saying about the move to regions.

*"Going to a region-oriented service delivery system, she states, will give the CDFI Fund the chance to target its funds, and outreach efforts, to the communities needing it most, through greater familiarity with the markets, other financial institutions in the market, and existing community development financial institutions."*



# Stepping Back to Tell The Story:

## Development Venture Capital in Eastern Kentucky



BY DEVON IDSTROM

*("Kentucky Highlands" continued from page 1)*

Corporation (KHIC)—illustrates the power of development finance and the importance of telling this story.

The pivotal role KHIC plays in generating a market for development finance in rural Eastern Kentucky is remarkable. Highlighted in this article are some of the successful deals that KHIC has initiated, a discussion of what constitutes success for this organization, and how KHIC measures the impact of the work it does in its nine county service area, which includes an Empowerment Zone. These nine counties have some of the highest levels of economic distress in Appalachia.

A management philosophy that



John Sturgill's Fantasy Custom Yachts - within five years of opening, the company employed 185 people and had annual sales in excess of \$15 million.

has created an entrepreneurial environment at KHIC has been fundamental to its success as a CDFI.

Ray Moncrief, Executive Vice President and Chief Operating Officer of KHIC, shared by me some of the lessons he has learned along the way through his extensive venture capital experiences.

### Background

KHIC was founded in 1968 on the basic principal that significant poverty reduction cannot be achieved without economic growth. As a result, KHIC found two primary challenges:

1) There is a clear need for substantial businesses to produce job opportunities for citizens; and

2) new entrepreneurs who could lead these businesses would need to be identified and "grown."<sup>1</sup> KHIC made a strategic decision to enter into venture capital in 1972, with assistance from the Department of Health and Human Services' Office of Economic Opportunity and a contract with the Institute for New Economic Development. The goal was to provide difficult-to-find

start-up capital at fair financing rates, provided the business was geographically located in a target

community and would commit to hire unemployed residents. In turn, KHIC would take an ownership position. This process became commonly known as development venture capital.<sup>2</sup> Noteworthy of this approach was the degree to which economic development would be targeted in distressed communities, and the commitment to providing technical assistance to increase the likelihood that the business would succeed in the future.

### Importance of Community Development Venture Capital

The importance of targeting distressed communities for investment opportunities, places which in many instances have been overlooked or disregarded by investors, cannot be emphasized enough. Distressed communities often lack connections to larger community networks and resources—this can be the result of insufficient investment in the creation and maintenance of modern transportation and communication infrastructure, the absence of established relationships with key investment or political stakeholders, or the lack of a commitment to education—a vital component for the creation of a competitive workforce. CDFIs engaged in venture capital play a crucial role not only in terms

*("Kentucky Highlands" continued on page 9)*

*("Kentucky Highlands" continued from page 8)*

of investing in businesses, but also in bringing needed infrastructure and educational improvements which are vital to successful business endeavors and a successful and competitive workforce to sustain an economic base in a community, according to KHIC.

Ray Moncrief explains the importance of community development venture capital as follows:

*"Traditional venture capital doesn't get off the interstate and drive 20 or 30 miles into the mountain hollows and invest in companies that have no basic services such as water, sewage, adequate roads, good electricity, and most importantly, a highly educated workforce."*<sup>3</sup>

Organizations like KHIC, willing to seek out entrepreneurial opportunities in traditionally disadvantaged areas, market these opportunities to investors and provide technical assistance and support to create a climate of success and mentoring networks for these businesses can prevent many places across America from continued decline and disinvestment.

## KHIC Success

When questioned about the success of KHIC, Ray Moncrief asserts that "Kentucky Highlands has been successful because we are entrepreneurs ourselves."<sup>4</sup> Entrepreneurs are not only to be found in the centers of the global capital markets—but also along mountain backroads, on Native American reservations, and in inner-cities across America.

Those who have been aided by

KHIC's technical assistance and financing are in the Eastern Kentucky region. Take Charleen Combs, for example. Nearly 20 years ago she started a one-person, home-based computer service business and has now become a "leading developer of management systems software for school districts in at least seven states." According to KHIC,

*"This would be a typical story if it weren't that it happened in Harlan, Kentucky rather than Silicon Valley. Yes, Harlan. And no, this isn't a transplanted software developer from California—it's a former coal company employee who was laid off from an office job. Charleen Combs co-founded Data Futures, Inc. in 1983 with the intuition that, with the right business skills, determination and partner, any vision can lead to success. Today the company she formed is the beacon of light for what opportunities are available in small-town Kentucky."*<sup>5</sup>

Another investee of KHIC's illustrates the important role that just one strong entrepreneur can have on the wider community. Outdoor Venture Corporation (OVC), located in Stearns, in McCreary County, manufactures modular tents for the Department of Defense. From humble beginnings as a tent maker in 1972, the company expanded to serve the defense industry in 1982. In 1972 KHIC initially provided OVC needed equity support and has continued to support the company as it has acquired and launched other ventures. The company has created a tremendous number of jobs in the rural market where it is located—1,000 to date—in a community of 13,000 people.

Job creation, however, is but one measure of impact that a successful



Outdoor Venture Corporation (OVC) manufactures modular tents for the U.S. Department of Defense.

entrepreneur can have in a community. In the case of OVC and in the community of Stearns, impact of the successful entrepreneur extended beyond job creation figures. As Moncrief articulates,

*"Not only have we invested in that rural community, which has suffered from a lack of investment and employment opportunities, but the investment in OVC stimulated non-quantifiable, non-monetary rewards as well."*

In this particular case, the entrepreneur and founder of OVC provided leadership integral in bringing a local library into the community, in addition to a branch of a local community college.

## Measurable Results

The community development finance industry continues to struggle with the importance of reporting success stories and measurable results or benchmarks. The power of the individual story is clearly valuable and critical in understanding the depth of importance of development finance on individual lives and larger communities, and the limitations of pure statistical benchmarks. However, the development finance industry also clearly recognizes, as

*("Kentucky Highlands" continued on page 10)*

*("Kentucky Highlands" continued from page 9)*

the industry matures, that it will be critical to refine impact measurements to communicate the measurable effect of development finance in distressed communities. KHIC has done much work to measure and report on the impact of its investments in the communities it serves.

Generating a threshold of success significant enough to see measurable results is critical for those in the field of community development. As difficult as it is to measure success, funders, want to see documented, measurable results. KHIC is leading the way in tracking and documenting the results of its work in the Eastern Kentucky region.

## Direct Impact on Households in the Community

This certified CDFI measures impact primarily in terms of job creation or retention. To date, in the nine counties that KHIC serves, it has created or retained 7,001 jobs<sup>6</sup>. A sufficient number of jobs has been created by businesses financed by KHIC to support 12.2 percent of the households in the nine counties it serves. The impact of KHIC in the Empowerment Zone is even greater. The EZ comprises two and a half of KHIC nine county service area counties in Appalachia (all of Clinton and Jackson counties and part of Wayne County). Within the EZ, 3,086 jobs have been created or retained since the formation of the EZ. As reported by KHIC, almost 40 percent of households in

the EZ have a family member employed by a company that KHIC has helped.

## Methodology

KHIC tracks employment in each of its portfolio companies on a monthly basis.

In order to identify the percentage of households that has directly been impacted by KHIC's ability to provide business financing, KHIC multiplies the job creation/retention figure by an average household size of 3.5 persons. This figure is then divided by the total population of the area (using 2000 census data).

## Targeted Impact in the Empowerment Zone

KHIC also manages the Kentucky Highlands Empowerment Zone (KHEZ) which was among the three rural EZs designated in 1994. The impact measure KHEZ primarily focuses on is job creation.

The number of people employed (see chart below) in jobs in the EZ has increased dramatically since 1994. At that time, 15,347 people were employed in the area<sup>7</sup>. As of March, 2001, there were 21,193 persons employed, a 38 percent increase over the number of people employed in 1994.<sup>8</sup> The percent increase in population in the EZ from 1990 to 2000 was 11.9 percent, or 3,259 residents<sup>9</sup>. Thus, the

employment rate grew at over three times the rate of population growth! Employment in the EZ totaled 22,001 as of December 31, 2001, an increase of 2,603 jobs over the previous year (13.4 percent increase) and 6,652 jobs since the original EZ designation in 1994 (43.3 percent increase)<sup>10</sup>.

## Successful Impact

How has KHIC managed to have this level of measurable impact in the communities in which it works? One factor is that KHIC's mission driven staff has a dedicated desire to invest in non-traditional areas and are prepared to go out of their way to do so.

A two-pronged approach is used by KHIC to find potential entrepreneurs: KHIC has been successful in attracting successful business leaders to the area but has also provided financial and technical assistance to indigenous leadership. Growing and identifying local leadership requires a strong connectivity to local communities—not only does KHIC's presence in local communities benefit individual entrepreneurs and the wider community (future employees), but it also benefits KHIC. "Deal flow is king in any investing organization," asserts Ray Moncrief and, given that, KHIC dedicates a significant amount of time and energy to staying connected with local leadership. The CDFI takes frequent advantage of opportunity to speak at gatherings

	1994	2001	Percent Change
Number of People Employed	15,347	21,193	+38%
Unemployment Rate	9.6%	5.4%	-4.2%

*("Kentucky Highlands" continued on page 11)*

## CDFI Fund Investment

Kentucky Highlands Investment Corporation received its first award of \$450,000 under the CDFI Program in 1996. It was awarded an additional \$1.2 million grant in 1999 and \$2.25 million (\$250,000 capital grant and \$2 million loan) in 2000.

The Fund has also provided investment in the Central Appalachian Peoples Federal Credit Union in the form

of \$575,000 in assistance in 1997<sup>14</sup>. The Jackson county branch of this credit union is located in the EZ and serves approximately 800 members<sup>15</sup> and has loaned more than \$2.5 million. The Fund has also invested in the Federation of Appalachian Housing Enterprises, Inc. (FAHE) and the Mountain Association for Community Economic Development, Inc. (MACED) which provide housing development and small business financing, respectively, in the region.

*("Kentucky Highlands" continued from page 10)*

hosted by area civic organizations, and strategically invites and hosts area professionals to breakfast discussions which provide KHIC with the opportunity to disseminate information about the products it offers.

## Public-Private Partnerships

The level of impact KHIC has had on the communities it serves resulted from significant capacity and commitment to eastern Kentucky on behalf of the organization, in conjunction with significant targeted, public investment into this area (and in KHIC as well). In fact, KHIC actively encourages investment by other institutions, be they conventional financial institutions, other CDFIs, non-profits, or local, state, or federal government. One of the best examples of a successfully generated community development impact as a result of a combined investment approach has been in the Kentucky Highlands EZ.

The Kentucky Highlands EZ invested over \$30 million in the three counties which encompass the EZ<sup>12</sup> and has leveraged significant additional public dollars (including foundation funds) of over \$110 million. In addition, more than \$55

million was committed to upgrading and improving infrastructure in the three-county area's competitive advantage for business attraction and expansion. The EZ has also invested heavily in its workforce, through the provision of over \$2 million in grants for skill development and employment training for EZ residents.

In total, the Kentucky Highlands EZ has benefited from over \$80 million in grant funds from a myriad of sources including: USDA, the U.S. Department of Labor, and investments from KHIC. Since 1996, KHIC has been awarded \$3.9 million from the CDFI Fund. According to Ray Moncrief,

*"The CDFI Fund is profoundly important to the blighted urban areas and underdeveloped rural areas...it gives us a vehicle—an opportunity—to invest dollars in these communities."*

## Conclusion

Community development venture capital has proven feasible as a development finance strategy in some of the most distressed communities in rural America. However, key to developing a strong and successful venture program is having a skilled, dedicated, entrepreneurial staff who are committed to developing and

maintaining strong community relationships. Targeting investment in distressed communities is achievable. Success coupled with documenting and communicating achievements to funders, investors, and the wider community helps to ensure the public and private support for the efforts of CDFIs engaged in investing in distressed communities.

<sup>1</sup> KHIC website. <http://www.khic.org/history.htm>. March 29, 2002.

<sup>2</sup> KHIC website. <http://www.khic.org/history.htm>. March 29, 2002.

<sup>3</sup> Interview with Ray Moncrief. March 29, 2002.

<sup>4</sup> Interview with Ray Moncrief. March 29, 2002.

<sup>5</sup> KHIC website. [www.khic.org/PressRelease/prdatafutures.htm](http://www.khic.org/PressRelease/prdatafutures.htm). March 29, 2002.

<sup>6</sup> This figure has been updated by contact person, Brenda McDaniel, of Kentucky Highlands from the data currently reported on their website, which lists a job creation/retention figure of 6,100 jobs.

<sup>7</sup> Kentucky Department of Employment Services ([www.khez.org/page2.htm](http://www.khez.org/page2.htm)).

<sup>8</sup> Ibid.

<sup>9</sup> Kentucky Highlands Empowerment Zone. "Neighborhood Funders Group Annual Conference." March 14-16, 2002. San Francisco.

<sup>10</sup> Ibid.

<sup>11</sup> Interview with Ray Moncrief. March 29, 2002.

<sup>12</sup> \$30,340,010 had been invested as of June 1, 2001 ([www.khez.org/page2.htm](http://www.khez.org/page2.htm)).

<sup>13</sup> Interview with Ray Moncrief. March 29, 2002.

<sup>14</sup> \$425,000 in grant funds, \$100,000 loan, and \$50,000 in technical assistance.

<sup>15</sup> [www.khic.org/page2.htm](http://www.khic.org/page2.htm)

<sup>16</sup> The nine counties served are: Bell, Clay, Clinton, Harlan, Jackson, McCreary, Rockcastle, Wayne, and Whitley.

FY 2002

# Fund Calendar

## NEW MARKETS TAX CREDIT

NMTC PROGRAM: CERTIFICATIONS

## NOTICE

December 2001

## APPLICATION DEADLINE

Open Window

NMTC PROGRAM: CREDITS

June 4, 2002

August 29, 2002

## BEA Program

PART II - FINAL REPORTS

July 19, 2002

## NEW MARKETS Information Sessions

<i>Atlanta, GA</i>	<i>July 18</i>
<i>Chicago, IL</i>	<i>July 19</i>
<i>Dallas, TX</i>	<i>July 23</i>
<i>Denver, CO</i>	<i>July 17</i>
<i>El Paso, TX</i>	<i>July 24</i>
<i>Jackson, MS</i>	<i>July 11</i>
<i>Los Angeles, CA</i>	<i>July 8</i>
<i>Miami, FL</i>	<i>July 16</i>
<i>Minneapolis, MN</i>	<i>July 22</i>
<i>New York, NY</i>	<i>July 15</i>
<i>San Diego, CA</i>	<i>July 9</i>
<i>Seattle, WA</i>	<i>July 10</i>

There will also be a Live Interactive Video Telecast of the information session on July 12, 2002. All sessions will be viewable at a local HUD Office near you.

For more information on any of the Information Sessions, please visit our website at [www.cdfifund.gov](http://www.cdfifund.gov)

## LEGISLATIVE UPDATES

The Senate Appropriations Committee completed its mark-up of the VA/HUD appropriations bill. The appropriated amount contained in the bill for the CDFI Fund is \$73 million, which is \$5 million more than the President's request. That additional \$5 million has been designated for the NACTA Program. The House and Senate have both in their August recess and are scheduled to return the day after Labor Day. The House VA/HUD Appropriations Subcommittee is expected to mark-up their version of the bill sometime after the August recess.



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